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TAGS: [ETRD](#) [PREL](#) [PGOV](#) [GM](#) [EU](#) [EFIN](#) [EAGR](#)
SUBJECT: GERMANY MULLS NEW APPROACH FOR DEEPENING
TRANSATLANTIC ECONOMIC RELATIONSHIP

REF: BERLIN 1747

Classified By: Economic Counselor Douglas Neumann for reasons 1.4(b) and (d)

¶1. (C) Summary: Chancellor Merkel has publicly affirmed that she plans to pursue deepening transatlantic economic relations during Germany's EU Presidency. In response, German officials have been scrambling to devise a plan to increase economic integration with the U.S. without adopting the formula of a transatlantic free trade agreement (TAFTA), which would delve into politically sensitive topics such as agriculture. Ministry of Economics and Chancellery officials believe the best way forward is to make progress in the area of non-trade barriers, e.g. standards and regulations, through a politically supported, government-funded forum.
End Summary.

Background - TAFTA Reloaded

¶2. (U) The idea of a transatlantic free trade agreement originally surfaced in 1998, but was scrapped by EU and U.S. officials due to significant differences on agriculture. On June 19, 2006, Bundestag member, Matthias Wissman (CDU), chair of the Bundestag EU Affairs Committee, and Elmar Bock

(EVP), chair of the European Parliament's Foreign Affairs Committee, released a joint paper strongly endorsing an ambitious Transatlantic Partnership Agreement (TPA) that would replace current transatlantic frameworks (reftel). Immediately following their press conference the report received some coverage in national daily newspapers but little political attention. However, in September, as prospects for a successful round of WTO trade talks waned and the EU embraced pursuing free trade agreements as part of its revised trade strategy, business leaders began pushing the idea of more economic integration between the U.S. and EU.

13. (U) Chancellor Merkel's initial positive reaction to pursuing a free trade agreement between the U.S. and the EU spurred further hopes that such an idea could become reality.

She stated she had not ruled out putting transatlantic free trade on the agenda for Germany's EU presidency, as long as she had assurances it would win sufficiently broad support to yield results during Germany's six-month Presidency. Fueling speculation on the Chancellor's plans was a recently released book, "World War on Prosperity," by Der Spiegel reporter Gabor Steingart, which calls for a free trade agreement, but with the underlying goal of providing a counterbalance to China's growing economic influence, a goal quickly rejected by German government officials. That said, based on his reported conversations with the Chancellor, Steingart confirmed Merkel's interest in "integrating like-minded people" via a transatlantic free trade arrangement.

The new transatlantic free trade idea: What it isn't...

14. (SBU) Pursuing a transatlantic free trade agreement in the traditional sense has met with wide-spread skepticism within the German government (as well as the EU Commission), which threw cold water on the idea when it surfaced last month to slow any momentum that the idea might be gaining within the business community. The Ministry of Economics and the Chancellery share the view that a free trade agreement makes little sense, given the already low tariff levels the U.S. and EU enjoy on non-agricultural products and the disparate agriculture policies that led the EU and U.S. to scrap the idea back in 1998. Chancellery contacts have suggested that the TAFTA idea offered "great photo ops" for politicians and business leaders, who are pushing the idea, but beyond the "sexy" title, TAFTA lacked any grounding in the reality of the transatlantic economic relationship.

...and what it could be

15. (C) Despite their skepticism regarding a traditional FTA, officials at the Chancellery do not want to kill the idea of pursuing deeper transatlantic cooperation and are considering how U.S.-EU ties might be promoted during Germany's EU presidency. Therefore, officials at the Ministry of Economics and the Chancellery have put together a proposal that reflects more realistic and pragmatic avenues for cooperation. (Note: Chancellor Merkel has yet to approve this current plan. End Note) This proposal would focus on areas the EU and U.S. have previously agreed to address, i.e. overcoming regulatory barriers and pursuing recognition of standards. According to Knut Brunjes, Deputy Director of Trade at the Ministry of Economics, the difference from the current arrangement, i.e., what was agreed upon at the 2005 U.S.-EU Summit in Vienna, is that this proposal goes beyond an exchange of regulators and looks to establish a more formal, politically-supported arrangement with established goals, a set timeline, and, most importantly for Germany, requisite funding from the U.S. and EU budgets. The proposal has business community support; BDI, Germany's largest industrial association, will present Chancellor Merkel with a similar plan when BDI President Thumann meets with the Chancellor on October 26.

16. (C) Offering a different perspective, Johannes Kindler, Deputy Director General for the Chancellery's Economic Division, said the motivation for pursuing deeper transatlantic integration in the regulatory area stems partly from the Chancellor's concern about hedge funds and the lack of transparency and regulations of these financial instruments. According to Kindler, while Chancellor Merkel realizes the benefit of hedge funds, she believes there is a need to address financial market regulation within the context of the transatlantic marketplace. Although Germany sees the 2007 G-8 Summit as a venue to discuss this issue more broadly, Kindler said the high level of U.S. hedge fund activity in Europe makes addressing hedge fund regulation within the framework of the transatlantic economic dialogue important as well.

Comment

17. (C) Germany's thinking on how to deepen the transatlantic economic relationship during its EU presidency continues to evolve. Chancellor Merkel is undertaking a balancing act as she attempts to maintain political momentum for achieving a deeper transatlantic economic relationship -- something Merkel has continually voiced during her time as Chancellor -- without having the idea fall victim to the quixotic notion of a transatlantic free trade agreement with its attendant baggage. The initial idea of a more focused approach based on harmonizing regulations and recognizing standards across the Atlantic seems well-grounded, although achieving the concrete results Germany seeks could be challenging, given the different approaches the EU and U.S. take in these areas.

Also, concerns about hedge fund activity as a motivating factor would provide a very narrow basis for pursuing the type of deeper transatlantic regulatory cooperation as envisaged by Chancellery officials.

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